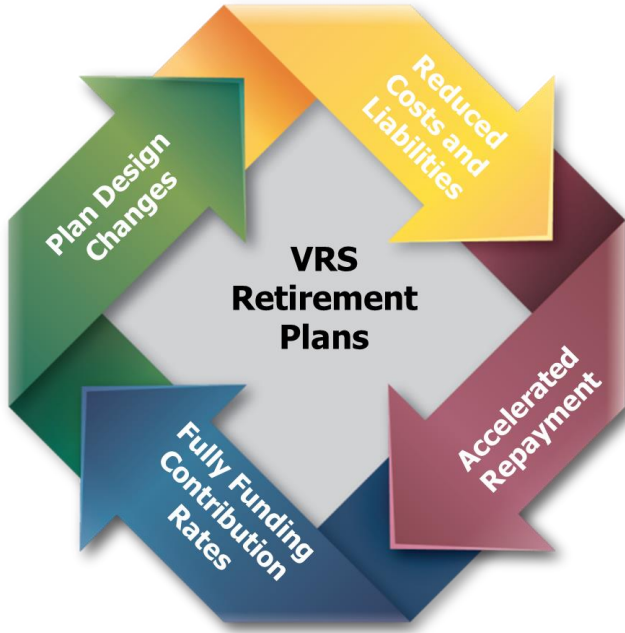




Virginia Retirement System Senate Finance Overview

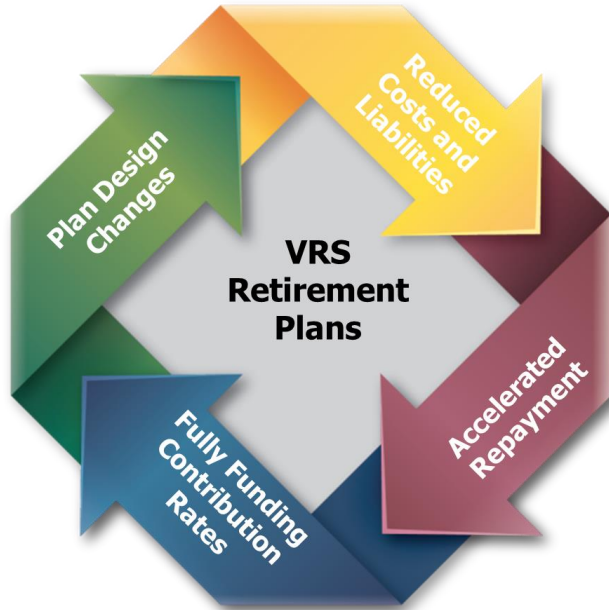
Presenter: Patricia S. Bishop
Director of the Virginia Retirement System

Date: October 19, 2017



- Pension reforms have effectively addressed the cost of benefits.
- Hybrid Retirement Plan introduced risk sharing with employees and reduced potential for future unfunded liabilities.
- Savings from pension reforms will be fully realized in the future as the hybrid plan becomes the dominant plan.
- Legacy unfunded liability being amortized over closed 30-year period with 26 years remaining.
- Future liabilities amortized over shorter 20-year closed periods.

Key Messages



- Governor and General Assembly accelerated:
 - Statutory commitment to fund 100% of actuarially determined contributions
 - Repayment of deferred contributions from 2010-2012 biennium
 - Fully repaid State plans
 - Significant infusion (\$193 million) into the Teacher plan
- Actions improve health of plans and avoid adding future costs to the plans
- Funded status of statewide plans has stabilized and is expected to trend upwards with the actions taken by the Governor and General Assembly to get to 100% of Board-certified rates, given experience aligns with assumptions

VRS Total Membership



| | Plan 1 | Plan 2 | Hybrid | Total |
|---|----------------|---------------|---------------|----------------|
| Teachers | 82,403 | 34,375 | 29,312 | 146,090 |
| Political Subdivisions | 52,938 | 31,830 | 21,756 | 106,524 |
| State Employees | 43,075 | 17,706 | 16,836 | 77,617 |
| State Police Officers' Retirement System (SPORS) | 1,286 | 591 | — | 1,877 |
| Virginia Law Officers' Retirement System (VaLORS) | 4,045 | 4,628 | — | 8,673 |
| Judicial Retirement System (JRS) | 266 | 48 | 105 | 419 |
| Total Active Members | 184,013 | 89,178 | 68,009 | 341,200 |

| Total Active Members | Retirees/ Beneficiaries | Inactive/ Deferred Members | VRS Total Population |
|----------------------|----------------------------|-------------------------------|----------------------|
| 341,200 | 199,064 | 147,230 | 687,494 |

As of June 30, 2017



Hybrid Retirement Plan Features and Tools

Hybrid Retirement Plan Overview



- Combines features of a **defined benefit plan** and a **defined contribution plan**, effective Jan. 1 2014
- Provides for risk-sharing between employer and employee with the introduction of the DC component
- Reduces potential for future unfunded liabilities
- Covers nearly all new VRS members, except hazardous duty
- Becomes dominant plan over the next 10 – 15 years

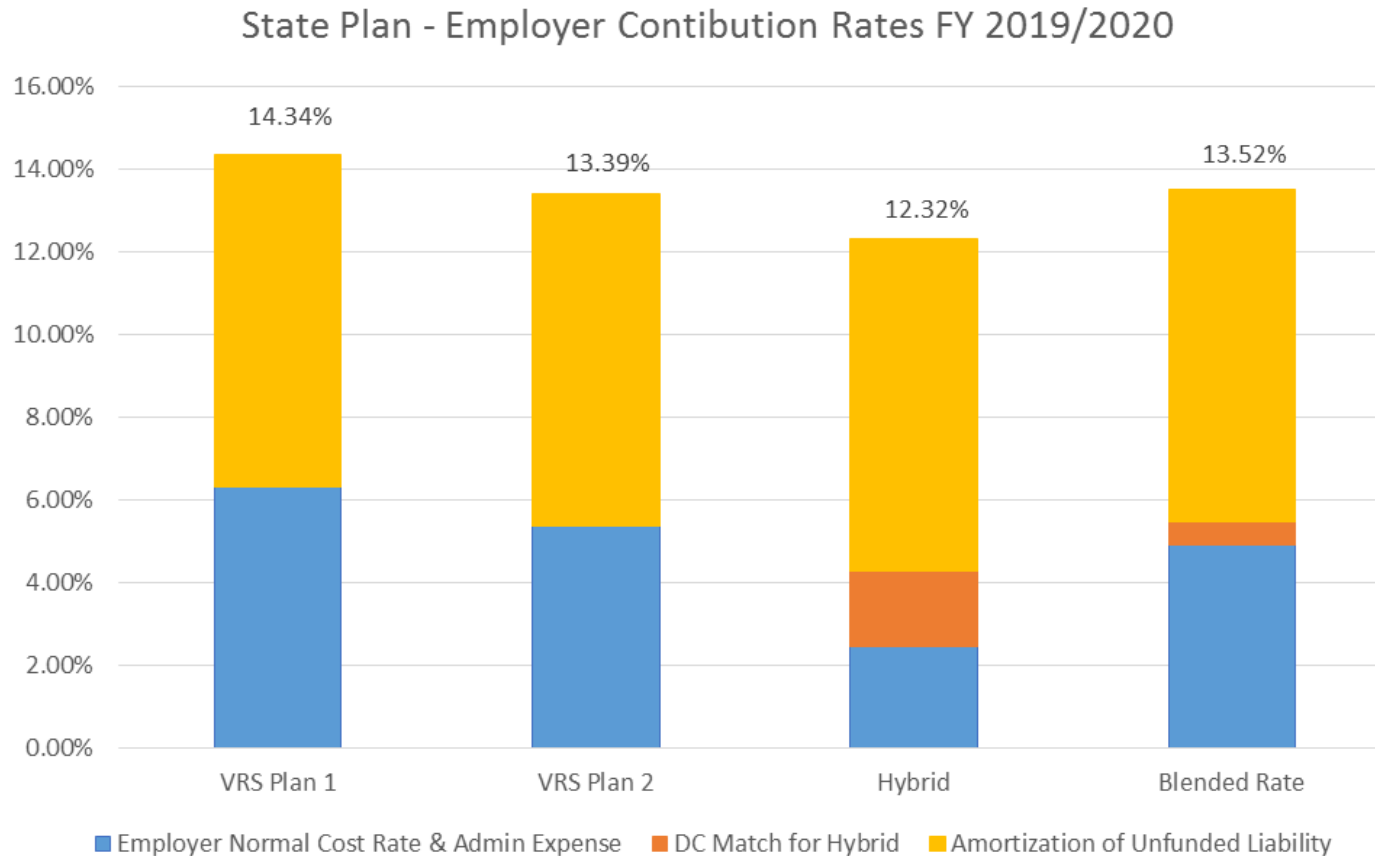
| Defined Benefit | Defined Contribution |
|--|---|
| <ul style="list-style-type: none">• Provides reduced benefit multiplier that serves as foundation for the future retirement benefit• Increased age/service requirements | <ul style="list-style-type: none">• Provides tax-deferred savings• Incentivizes employee savings by including employer match |

Hybrid Retirement Plan



- Total combined balance in the Hybrid 401(a) Cash Match Plan and the Hybrid 457 Deferred Compensation Plan is \$193 million
- Due to auto-escalation there are now 51,438 hybrid members making voluntary contributions, or 75.4%
 - Of those, 14,004 hybrid members actively elected a voluntary contribution

Impact of Pension Reform on Plan Costs

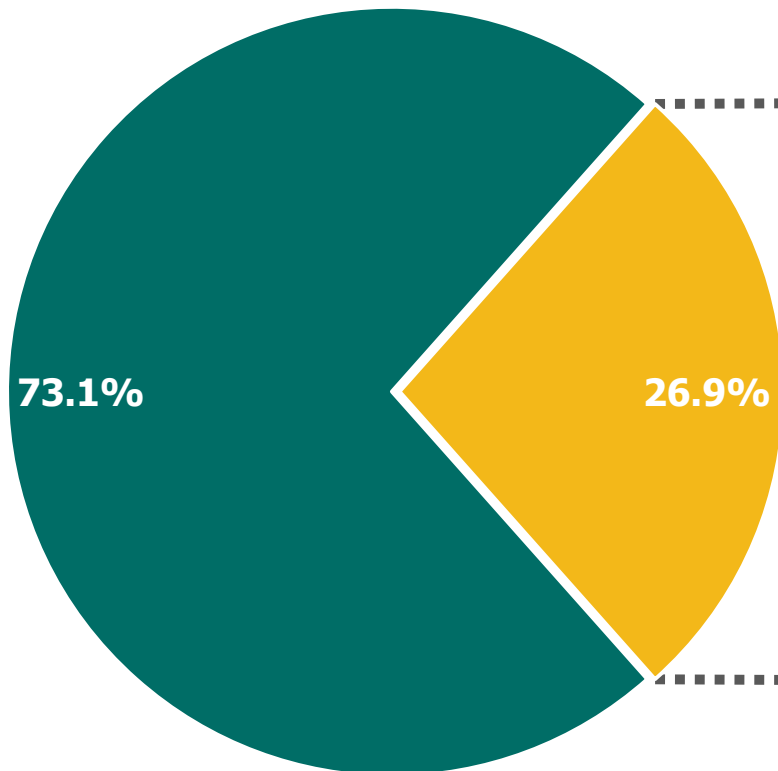


- Amortization of unfunded liability represents over two-thirds of employer costs.
- Hybrid Retirement Plan costs, including employer match to DC component, lower than Plan 1 or Plan 2.

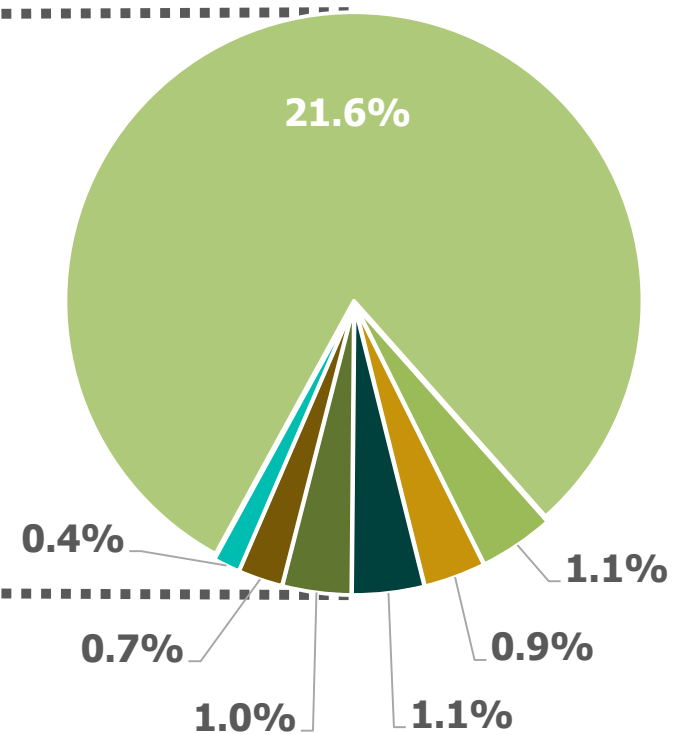
Hybrid 457 Plan – Voluntary Contributions



Active members who have a voluntary contribution as of June 15, 2017



Active members with a voluntary contribution greater than 0.5%



Voluntary Contribution Percentages

■ 0.50% ■ 1.00% ■ 1.50% ■ 2.00% ■ 2.50% ■ 3.00% ■ 3.50% ■ 4.00%

**Helping members plan
for tomorrow, today.**

- ✓ **Auto-Escalation** – Implemented January 1, 2017; only 3.1% of members opted out
- ✓ **Enhanced Active Choice** – Provides messaging to members to encourage action
- ✓ **SmartStep** – Allows Hybrid Retirement Plan members to auto-escalate at a time they choose

The logo for SMARTSTEP, with 'SMART' in blue and 'STEP' in green, both in a bold, sans-serif font.



Funded Status and Contribution Rates

Virginia Retirement System Unfunded Liabilities by Plan (Dollars in Billions)

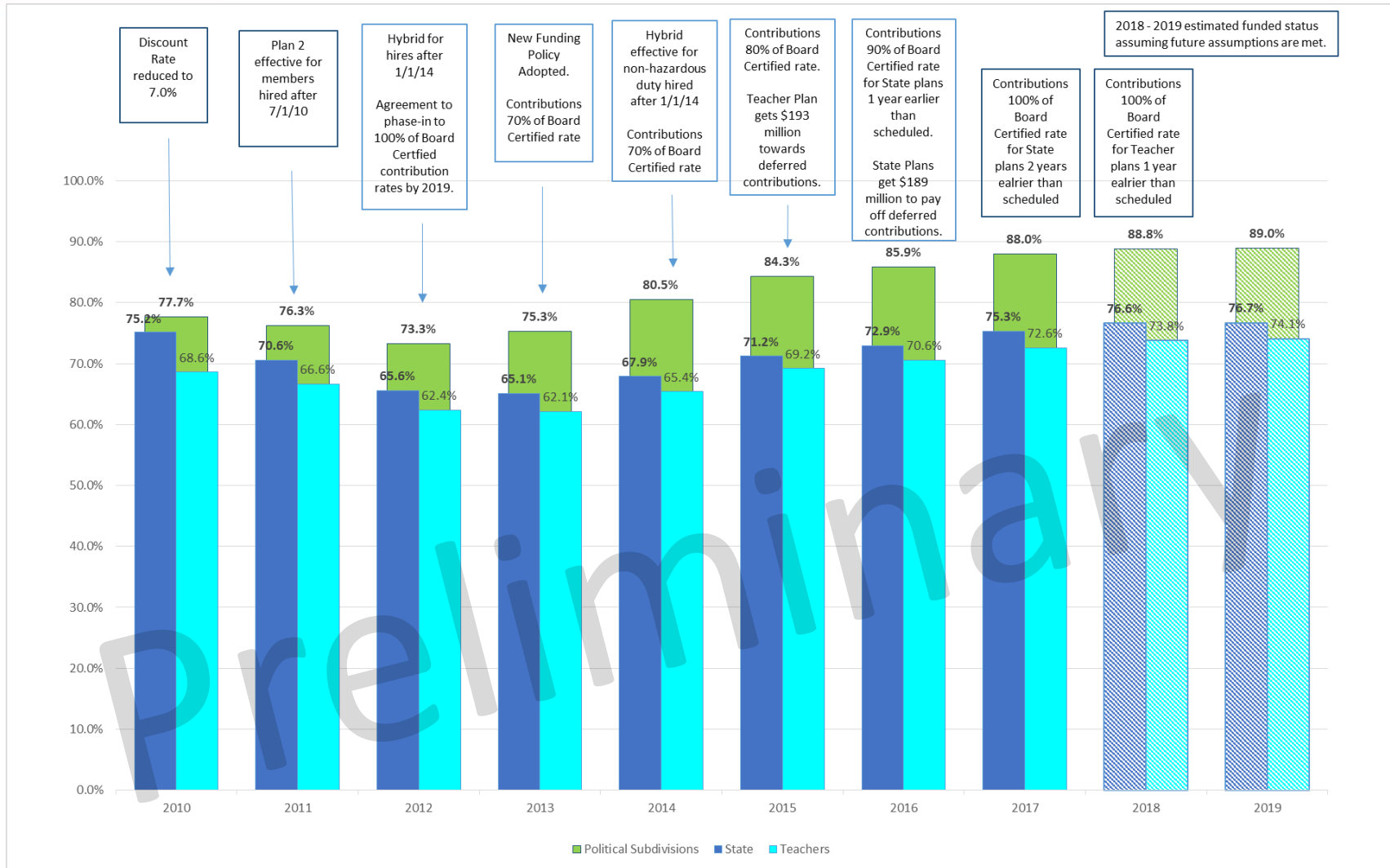


| Plan | 6/30/2016 | 6/30/2016 | 6/30/2017 | 6/30/2017 |
|------------------------|-------------------------------------|--------------------------------|-------------------------------------|--------------------------------|
| | Funding Basis Smoothed Assets | Funding Basis Market Assets | Funding Basis Smoothed Assets | Funding Basis Market Assets |
| State | \$6.2 | \$6.5 | \$5.7 | \$5.5 |
| Teacher | \$12.8 | \$13.4 | \$12.3 | \$11.9 |
| Political Subdivisions | \$2.9 | \$3.3 | \$2.6 | \$2.3 |
| Total VRS | \$21.9 | \$23.2 | \$20.6 | \$19.7 |
| SPORS | \$0.3 | \$0.4 | \$0.3 | \$0.2 |
| VaLORS | \$0.8 | \$0.8 | \$0.6 | \$0.6 |
| JRS | \$0.2 | \$0.1 | \$0.1 | \$0.1 |
| Grand Total | \$23.2 | \$24.5 | \$21.7 | \$20.7 |

Notes:

- Political Subdivision 2017 unfunded liabilities are a preliminary estimate based on roll forward of 2016 valuation results. Political Subdivision results will be provided to VRS Board in November 2017.
- All 2017 results are preliminary until certified by the VRS Board of Trustees.

Funded Status and Pension Reforms

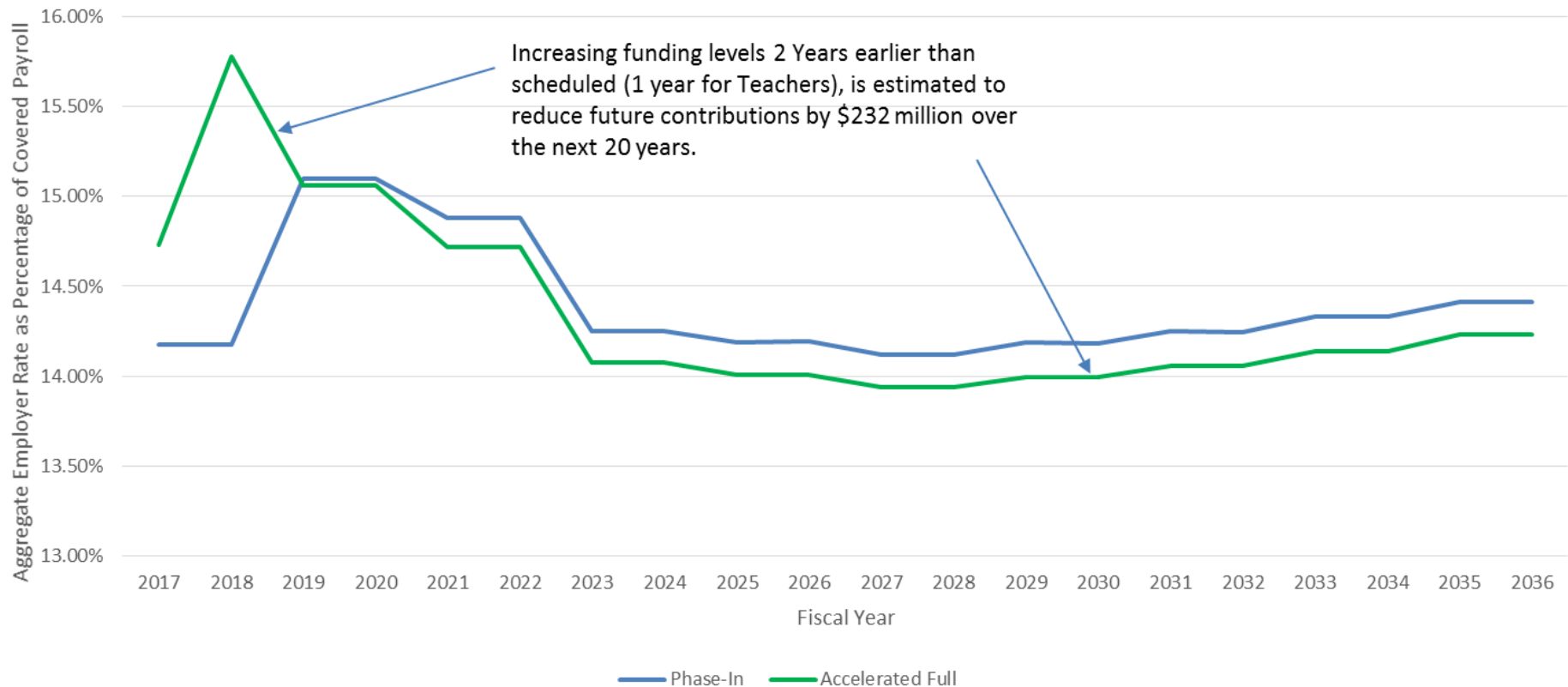


- Since 2012, State and Teacher plans have experienced a 10% improvement in funded status and Political Subdivisions in aggregate have seen a 15% improvement.

Impact of Increasing Funding of Required Contributions

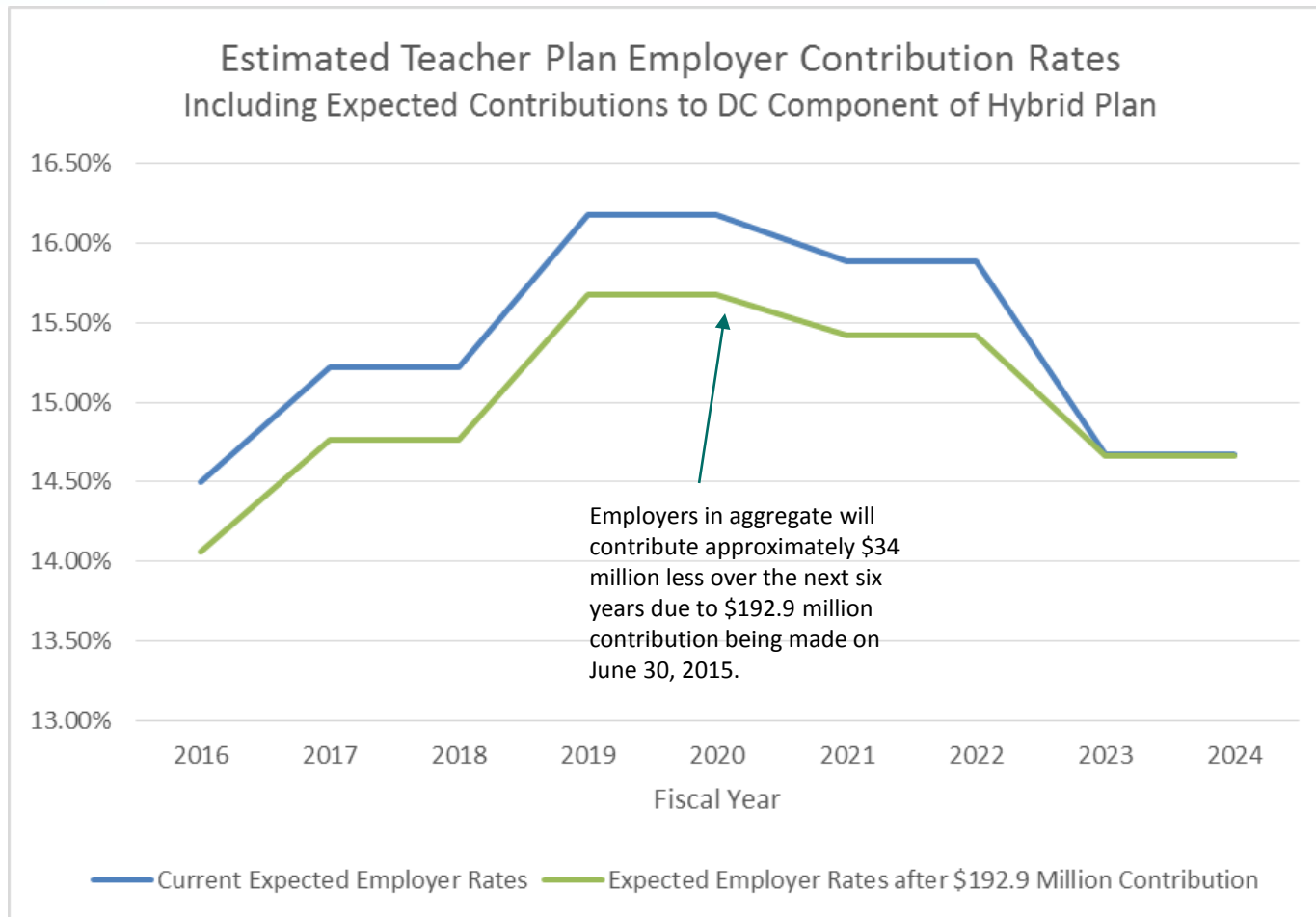


Statewide Retirement Systems Aggregated Funding as Percentage of Payroll
Estimated Change in Contribution Requirements



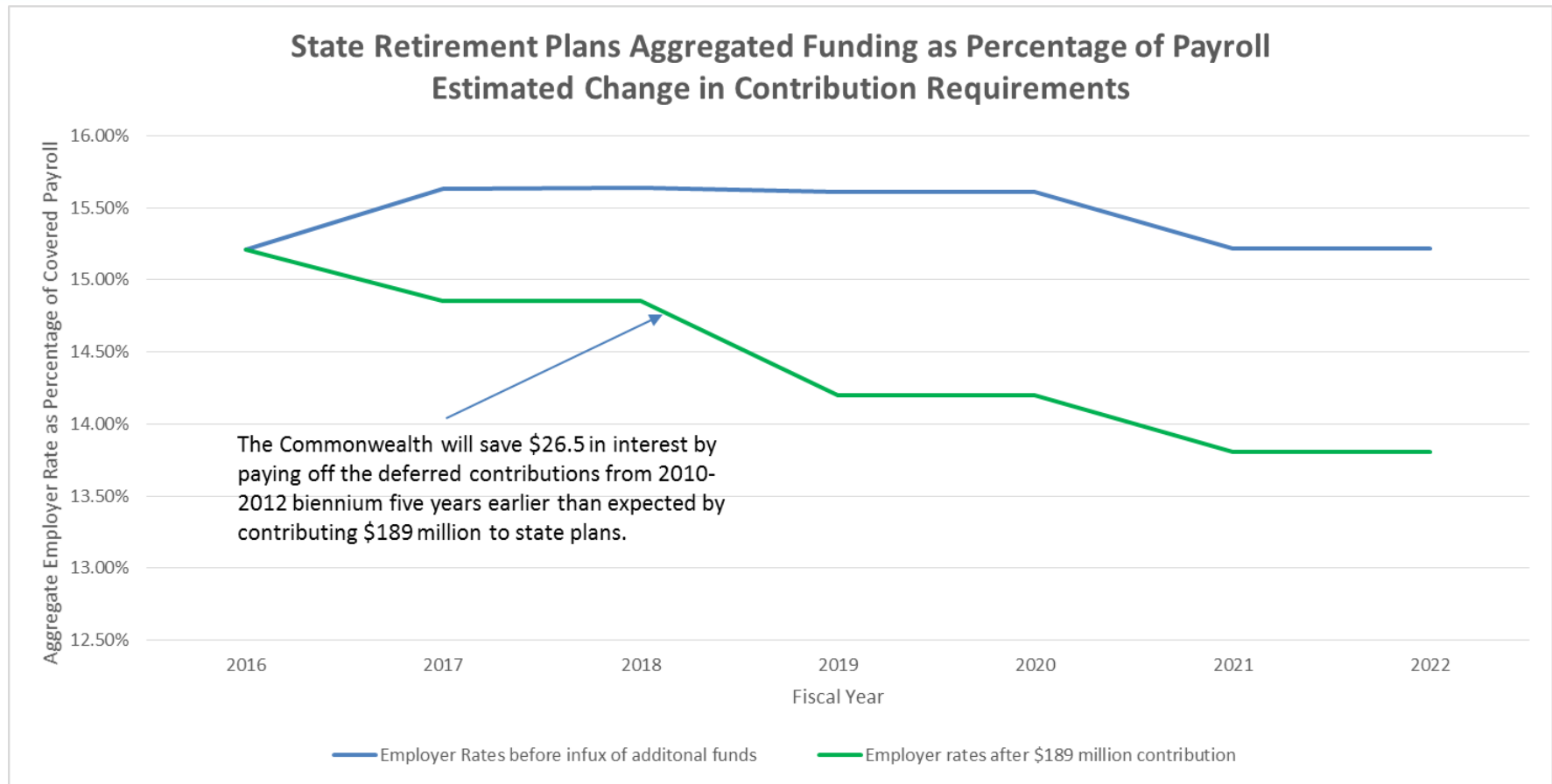
Note: Aggregated results include State, Teachers, SPORS, VaLORS, and JRS

Teacher Plan Projected Employer Contribution Rates Impact of \$192.9 Million Contribution



- Assumes employer match to defined contribution portion of the hybrid plan of 1.5% of payroll for hybrid plan members.
- Teacher rates in fiscal years 2016-2020 reflect accelerated payment of \$192.9 million to pay back deferred contributions from 2010-2012 biennium. Accelerated payment was reflected in 2015 budget bill.
- Projected years assume all actuarial assumptions are met, including 7.0% rate of return with 2.5% inflation.

State Plans Projected Employer Contribution Rates in Aggregate Impact of \$189 Million Contribution



Note: Aggregated results include State, SPORS, VaLORS, and JRS.

- Assumes employer match to defined contribution portion of the hybrid plan of 1.5% of payroll for hybrid plan members.
- State rates in fiscal years 2017-2022 reflect accelerated payment of \$189 million to pay back deferred contributions from 2010-2012 biennium. Accelerated payment is reflected in 2016 budget bill.
- Future years assume all actuarial assumptions are met, including 7.0% rate of return with 2.5% inflation.

VRS Retirement System

Employer Contribution Rates (% of Total Covered Payroll)



| | Fiscal Years 2017/2018 | | Fiscal Years 2019/2020 | | |
|----------|------------------------|---------------------------|---|---------------------------------------|--|
| System | Board Certified | General Assembly Approved | Full Employer Rate for Defined Benefit Plan | Employer Rate for Hybrid DC Component | Total Employer Rate for Retirement Plans |
| State | 14.46% | 13.49% | 12.94% | 0.58% | 13.52% |
| Teachers | 16.32% | 14.66%/16.32% | 15.24% | 0.44% | 15.68% |
| SPORS | 28.99% | 28.54% | 24.88% | N/A | 24.88% |
| ValORS | 22.21% | 21.05% | 21.61% | N/A | 21.61% |
| JRS | 45.15% | 41.97% | 33.21% | 1.18% | 34.39% |

- Contribution rates are net of the 5% and 4% member contribution rates for Plan 1, Plan 2, and Hybrid plan respectively.
- Employer rate for Hybrid DC Component for 2019/2020 assumes employer match to DC component of hybrid of 1.83%, 1.76% and 2.98% for members in State, Teachers, and JRS Hybrid plans, respectively.
- The 2017/2018 rates for State, Teachers, and JRS pension plans include employer match DC component of hybrid of 0.20%, 0.14%, and 0.51% of covered payroll, respectively.
- All fiscal year 2019/2020 results are preliminary until certified by the VRS Board of Trustees.

OPEB Contribution Rates

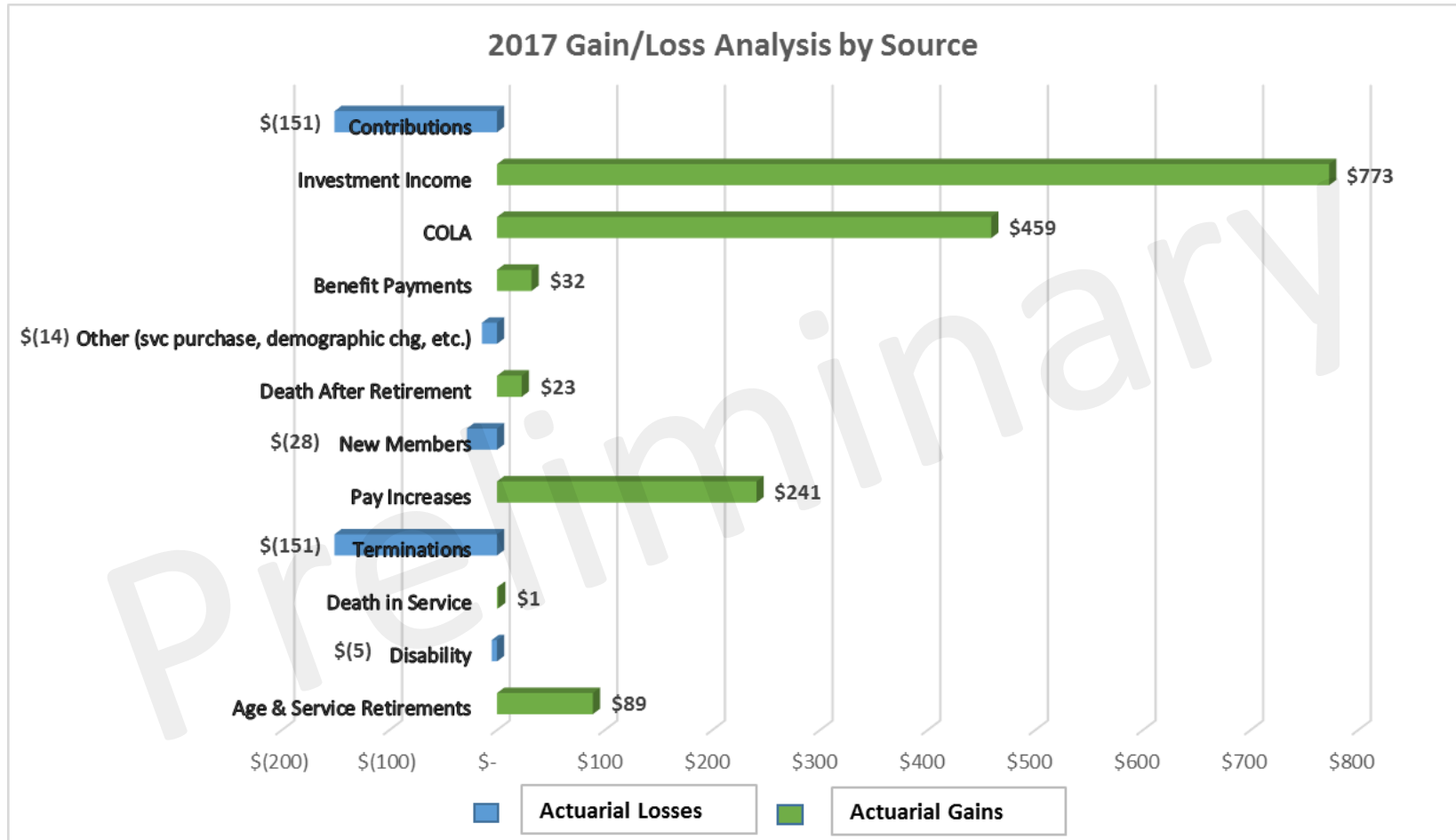


| | Fiscal Years 2017/2018 | | Fiscal Years 2019/2020 |
|--------------|------------------------|---------------------------|------------------------|
| System | Board Certified | General Assembly Approved | Board Certified |
| HIC State | 1.18% | 1.18% | 1.17% |
| HIC Teachers | 1.23% | 1.11%/1.23% | 1.20% |
| VSDP | 0.66% | 0.66% | 0.62% |
| Group Life | 1.31% | 1.31% | 1.31% |

- HIC State contribution rates include State, SPORS, VaLORS, ORP, and UVA members.
- VSDP contribution rates based upon covered payroll and include long-term disability and long-term care benefits.
- Some employers may require employees to contribute a portion of Group Life rate.
- All 2019/2020 results are preliminary until certified by the VRS Board of Trustees.

2017 Gain/Loss Analysis by Source

Statewide Systems in Aggregate (\$Millions)





GASB Update

- GASB 74 effective date for VRS plans is the fiscal year ending June 30, 2017.
 - Accounting disclosures for 11 distinct VRS OPEB plans.
- GASB 75 effective date for VRS employers is the fiscal year ending June 30, 2018.
 - Final implementation guide scheduled to be approved November 2017.
 - Proposed GASB 75 implementation guide amends GASB 74 implementation guide.
- VRS expects adoption of GASB 74/75 reporting along with apportionment of liabilities to be very similar to procedures used for GASB 67/68.

VRS OPEB Liabilities by Employer

June 30, 2016 Net OPEB Liability (NOL)



| Plan | State * | Teacher | Political Subdivisions | NOL as of 6/30/16 |
|--|-----------------|-----------------|------------------------|-------------------|
| Group Life Insurance | \$536,689,000 | \$745,475,000 | \$467,378,000 | \$1,749,542,000 |
| Health Insurance Credit | \$960,608,000 | \$1,268,349,000 | \$18,905,000 | \$2,247,862,000 |
| Virginia Sickness and Disability Program | (\$166,940,000) | \$0 | \$0 | (\$166,940,000) |
| Virginia Local Disability Program | \$0 | \$439,000 | \$378,000 | \$817,000 |
| Line of Duty Act (LODA) | \$133,350,000 | \$0 | \$89,433,000 | \$222,783,000 |
| Total OPEB NOL | \$1,463,707,000 | \$2,014,263,000 | \$576,094,000 | \$4,054,064,000 |

* State includes state employees regardless of pension plan. State HIC also contains state-funded local positions.

Comparison of Unfunded Liabilities



- Net pension liabilities and Net OPEB liabilities as of 6/30/16.



Line of Duty Act Update

LODA Administrative Roles



A partnership of VRS and DHRM

Websites & Email Addresses



Website: www.valoda.org

Email: loda@varetire.org



Website: www.dhrm.virginia.gov/loda

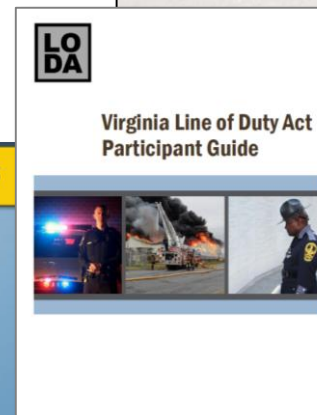
Email: loda@dhrm.virginia.gov

Employer Resources:

- Welcome Video
- LODA Overview for Employers

Participant Resources:

- Welcome Video
- Tutorial: How to Apply for LODA Benefits
- Virginia LODA Participant Guide
- LODA Overview for Participants





**Helping Members Plan
for Tomorrow, Today!**

VRS is shaping our online solutions with a **greatly enhanced myVRS – one unified system** for members, retirees and employers.



This past year, we rolled out the following features:

- A new goal-based **retirement planner**
- A refreshed **benefit estimator**
- A **self-service** purchase of prior service component
- **Security enhancements** and new features for retirees
- New **comparison tools** to help college and university faculty members compare and contrast their retirement plan options

Our work continues as we gear up to **accept retirement applications and beneficiary changes online.**

Log in or create a secure online account: www.varetire.org/myVRS

Financial Wellness



Click on **Financial Wellness** from the landing page of the VRS website to view:

- Information
- Resources
- Education

The screenshot shows the Virginia Retirement System (VRS) website. The header includes the VRS logo and the tagline "Helping Members Plan for Tomorrow, Today". Below the header is a navigation bar with tabs for "Employers", "Members", "Retirees", and "Defined Contribution Plans". The left sidebar menu lists various services, with "Financial Wellness" highlighted by an orange circle and an orange arrow pointing to it. The main content area features a banner for "myVRS Financial Wellness" with a cup of coffee and a diagram of financial concepts like "MAJOR PURCHASES", "CASH FLOW", "TAXES", "INSURANCE", and "PERSONAL FINANCIAL PLANNING". Below the banner is a section titled "What's Financial Wellness?" with a "Start Learning Now" button and a "myVRS Personalized Content" section with an email subscription form.

Virginia Retirement System

Helping Members Plan for Tomorrow, Today

myVRS

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